Tax Card 2016

Effective from 1 January 2016
The Republic of Estonia

KPMG Baltics OÜ

kpmg.com/ee

CORPORATE INCOME TAX

According to the corporate income tax system applied in Estonia, undistributed profits are not subject to tax. Instead, income tax at the rate of 20% is charged on gross dividends. However, tax is calculated as 20/80 of the net dividend. Taxable expenses are also subject to 20/80 corporate income tax.

Exceptions

Under certain conditions, redistribution of dividends is not subject to taxation. Income tax is not charged on dividends received from a subsidiary domiciled in an EEA Member State or Switzerland if at least 10% of the shares or votes in the subsidiary is held by an Estonian company. The exemption method applies to dividends received from a subsidiary domiciled in another country if an Estonian company holds at least 10% of the shares or votes in the subsidiary, and income tax has been withheld or paid. Also, in some cases the exemption method is applied to the dividend paid out of profit attributed to a resident company's permanent establishment. However, the exemption does not apply if dividends are received from companies in low tax jurisdictions.

Fringe benefits and expenses not related to business

Fringe benefits are subject to income tax of 20/80 at the employer's level and social tax at the rate of 33% (social tax is levied on the amount which includes both income tax and non-deductible VAT). In general, all benefits in kind provided to employees are taxed as fringe benefits. Incentive stock option programmes may be exempt from fringe benefit tax under certain conditions.

Expenses and payments not related to the company's business are subject to income tax of 20/80.

Gifts, donations and entertainment costs

A resident company has to pay income tax of 20/80 on gifts and donations made, with certain exceptions to non-profit organisations. Expenses incurred while entertaining guests

© 2016 KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

and business partners, i.e. expenses incurred in respect of accommodation, catering, transportation and cultural events, are also subject to tax if they exceed certain tax-exempt limits.

Transfer pricing

If the value of a transaction conducted between associated persons (including transactions carried out between the head office and its permanent establishment) differs from market conditions, the difference is subject to income tax (transfer pricing). Qualifying companies must document their transactions with associated parties to prove that the prices used are at arm's length.

Other distributions

Payments made by a resident company upon reduction of share capital or contributions, or upon redemption or return of shares or contributions are subject to income tax at the level of the company who makes the payment. Income tax is paid only on the amount which exceeds the actual contribution made to acquire a holding. Similarly, the portion of liquidation proceeds that exceeds the initial monetary or non-monetary contributions is subject to 20/80 corporate income tax.

Loss carried forward

Losses incurred by a company do not affect corporate taxation.

Thin capitalisation

No thin capitalisation rules are applied in Estonia.

Withholding tax on payments to non-residents

In Estonia, withholding tax is imposed on the following payments made to non-residents:

• interest	0%, 20%*
• royalties	0%, 10%**
• fees for services provided in Estonia	10%
• rental payments	20%

* 20% rate applies to the interest exceeding the market interest rate.

** In certain cases, outbound royalty payments are exempt from withholding tax provided that the recipient is an associated company of the paying company and is resident in another EU Member State or Switzerland, or such a company's permanent establishment situated in another Member State or Switzerland.

© 2016 KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Withholding tax rates may be subject to reduction under Double Taxation Treaties (see the list below).

Withholding tax is paid upon making the payment.

PERSONAL INCOME TAX

In Estonia, a flat rate of 20% is imposed on personal income.

Taxable income

Individuals are subject to general income tax of 20% on income derived from:

- employment (monetary payments);
- business (self-employed income);
- property/investment (rental income, royalties, interest, capital gains on disposal of business, movable and immovable property);
- other sources (certain pensions, scholarships, grants, awards, lottery prizes, insurance indemnities and payments from pension funds).

In certain cases, an income tax rate of 10% applies.

Fringe benefits are subject to taxation at the level of the employer.

Tax-exempt income

Under Estonian law, certain amounts of personal income and allowances are exempt from tax, such as:

- basic tax exemption of EUR 2,040 per year;
- an additional allowance of up to EUR 1,848 granted to a parent, starting from the second child aged 17 or less;
- additional deductions on housing loan interest, training expenses, gifts, donations, insurance premiums and acquisition of pension fund units, etc.

The entire deduction provided is limited to EUR 1,200; however, the amount deducted cannot exceed 50% of the taxable income per taxpayer during a period of taxation (i.e. a calendar year).

© 2016 KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Individuals have to submit the personal income tax return annually by 31 March following the year of taxation.

Social security

An employer must pay mandatory social security contributions on gross employment income. No ceiling has been set on social security contributions. The minimum social security obligation per employee per month as of 2016 is EUR 128.70.

For employees working in Estonia, social security and unemployment insurance contribution rates for 2016 are as follows:

- the rate charged to employers: 33.8% (33% + 0.8%);
- the rate charged to employees: 1.6%.

Funded pension contributions at the rate of 2% (or 3% for those who have opted for) are withheld on gross salary payments to residents if the employee has joined the funded pension system. It is obligatory to an Estonian tax resident born after 1 January 1983 to join the mandatory funded pension system.

After joining the EU, Estonia followed the rules stipulated in Council Regulation (EEC) No 1408/71. From 1 May 2010, Council Regulations No 1408/71 and No 574/72 were replaced by Regulations No 883/2004 and No 987/2009.

VAT

The standard VAT rate is 20% and the reduced rate is 9%.

The following supplies are subject to a VAT rate of 9%:

- books and certain periodicals;
- drugs, medicines;
- accommodation services.

The following transactions are subject to zero-rated (0) VAT:

- export of goods and intra-Community supplies;
- cross-border business to business services;
- goods placed into free zones or free warehouses, or certain goods listed in Annex V of Council Directive 2006/112/EC that are placed into a VAT warehouse;

© 2016 KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

- export and import related transport services, international passenger services;
- supply of aircraft used by an air carrier operating mostly on international routes;
- supply of sea-going vessels for navigation on high seas;
- provision of services on board vessels or aircraft during international transport;
- supplies of goods under diplomatic and consular arrangements;
- supplies of goods and services to institutions of the EU and NATO forces.

The following transactions are exempt from VAT:

- transactions involving securities and financial services (with an option to tax domestically);
- transactions involving immovable property or parts thereof (with an option to tax);
- insurance transactions;
- rental transactions involving immovable property or parts thereof (with an option to tax);
- universal postal services;
- lotteries and gambling;
- certain education services;
- transactions involving health and welfare.

ESTATE TAX AND LAND TAX

The only property tax imposed in Estonia is land tax. As a rule, the annual tax rate is between 0.1% and 2.5% of the taxable value of the land. The owner (or, in certain cases, the user) of the land is under the obligation to pay the tax. However, the patch of land under a taxpayer's home is exempt from tax.

© 2016 KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

TAX TREATIES

In 2016, Estonia has effective Double Tax Treaties with the following countries:

Albania
Armenia
Azerbaijan
Austria
Bahrain
Belarus
Belgium
Bulgaria
Canada
The Czech Republic
China
Croatia
Cyprus
Denmark
Finland
France
Georgia
Germany
Greece
Hungary
Iceland
India
Ireland
The Isle of Man
Israel
Italy
Jersey
Kazakhstan
The Republic of Korea
Latvia
Lithuania
Luxembourg
Macedonia
Malta
Moldova
The Netherlands
Norway
Poland
Portugal
Romania
Serbia
Singapore
Slovakia
Slovenia
Spain
Sweden
Switzerland
Thailand
Turkey
Turkmenistan
Ukraine
The United Arab Emirates
The United Kingdom
The United Mexican States
The United States of America
Uzbekistan

INVESTMENT INCENTIVES

Only one investment incentive is available under the Estonian tax system – no tax is levied on retained or reinvested profits; however, distributed profits are subject to taxation.

REAL ESTATE TRANSFER DUTY

The duty is paid by an acquirer of immovable property. The tax rate depends on the purchase price of the property. However, when the purchase price cannot be established, the rate depends on the taxable value of the land plus the value of the building (in case of an improved immovable).

© 2016 KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

For further information please contact:

KPMG Baltics OÜ
Narva mnt 5
10117 Tallinn
Estonia
T: +372 6 268 700
F: +372 6 268 777

www.kpmg.ee

Joel Zernask
Head of Tax
jzernask@kpmg.com

kpmg.com/app

Download on the App Store

This card was prepared in January 2016 as a quick-reference tool for the most common tax rates and amounts. Any exceptional or special regimes have been deliberately omitted.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.